



**erex Co., Ltd. [9517]**

**To become a pioneer in the new  
era of electric power with  
renewable energy at its core**

**Supplementary Materials for the 1Q of FY March 31, 2024**

**(3 Months Ended June 30, 2023)**

**August 10, 2023**

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# Summary of Financial Results

~1Q of FY March 2024 (3 Months Ended June 30, 2023) ~

# Financial Results for the 1Q of FY March 2024 (3 Months Ended June 30, 2023)

- Net sales slightly declined YoY, but were better than the 1Q internal plans
- Ordinary income and net income were down significantly YoY, but 1Q results were largely in line with the internal plans
- Earnings structure in the 1Q has traditionally been difficult to generate profits because 1Q coincides with the period of low electric power demand and periodic repairs of power plants. In the current fiscal year, from the planning stage, the structure is even more difficult to generate profits in the 1Q than in previous years (see next page for reasons)

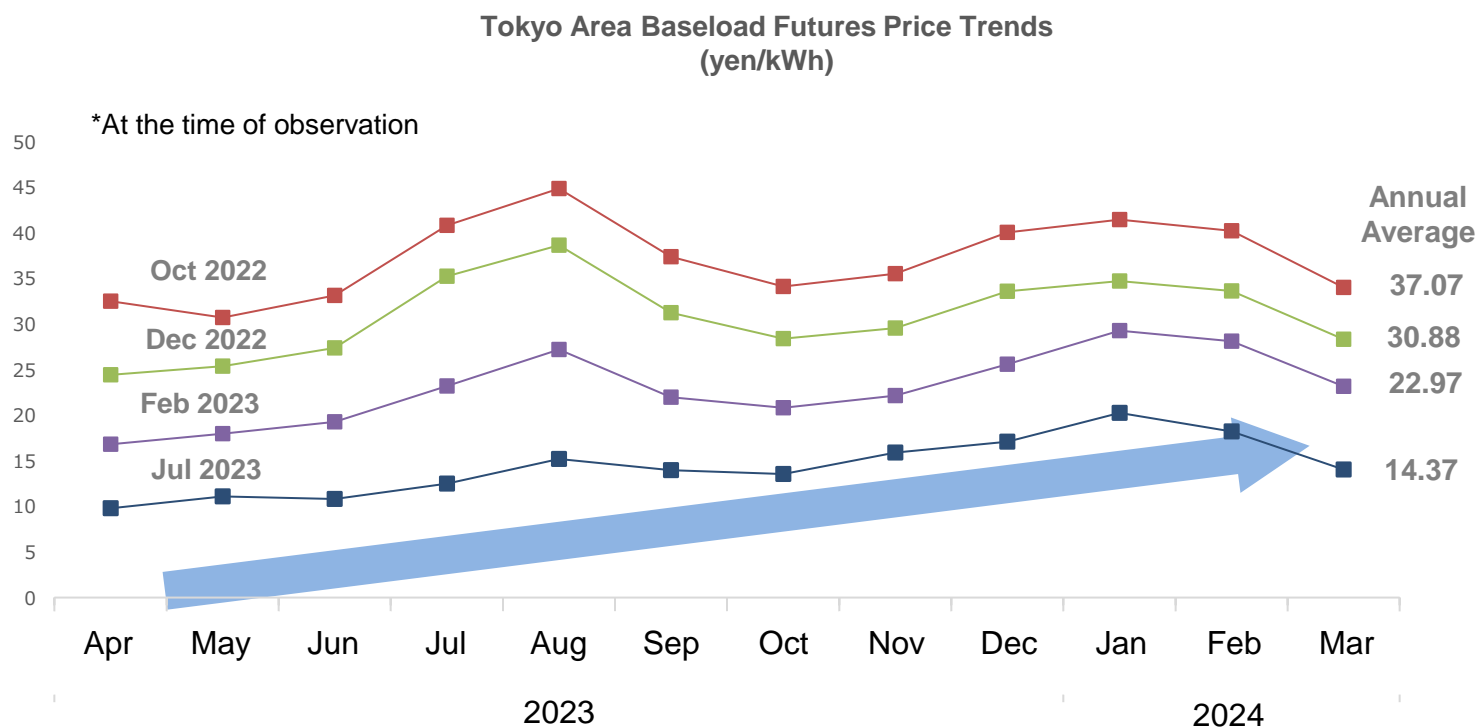
(JPY Billion)	1Q of FY March 2022 (Results)	1Q of FY March 2023 (Results)	1Q of FY March 2024 (Results)	YoY Comparison	FY March 2023 Full Year (Plans)
Net Sales	33.2	58.6	55.9	△ 4.7%	228.0
EBITDA*	2.5	3.7	△3.0	-	-
SGA Expenses	2.1	2.6	2.7	4.5%	-
Operating Income	1.1	3.1	△5.9	-	7.7
Ordinary Income	1.5	2.1	△4.1	-	7.5
Net Income *	0.8	1.6	△3.7	-	4.4

\*EBITDA... Income before income taxes + Interest expense + Depreciation + Amortization of goodwill, etc.

\*Net income attributable to the owners of the parent company

# Factors Behind the Significant Decline in 1Q Earnings

- The assumed FY March 2024 JEPX future prices in summer-winter of 2022 were over 30 yen/kWh, and erex Group secured sufficient PPA sources to meet retail demands in preparation for the risk of price spikes, but prices began to fall sharply in 2023, making procured power sources relatively more expensive
- Retail demands at the start of FY March 2024 were lower than the planned retail demands for FY March 2024 due to the departure of large customers, etc. This resulted in a large volume of surplus power from procured power sources in the 1Q of the current fiscal year, resulting in negative spread for sales to JEPX
- Lower-than-planned operation of power plants was also a factor in lower earnings

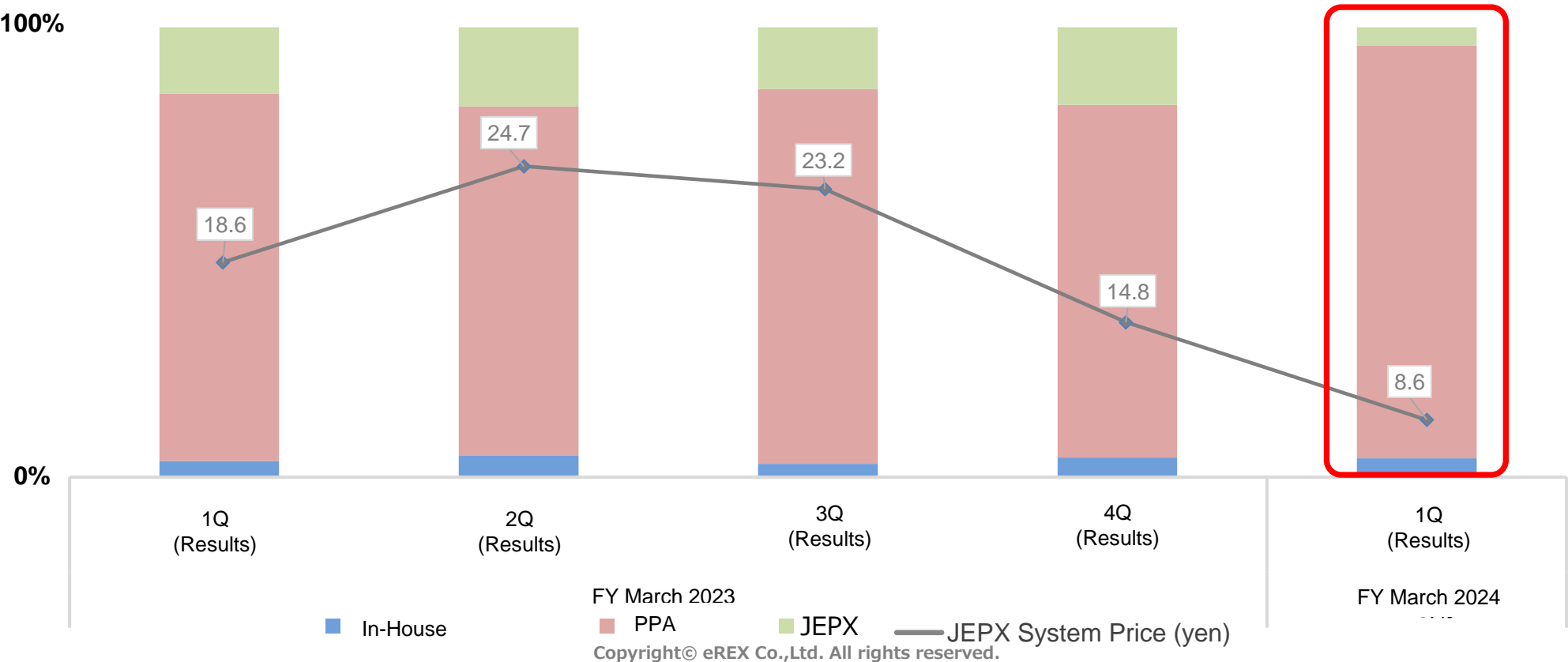


- As electric power futures prices for FY March 2024 soared in summer-winter of 2022, erex Group secured sufficient PPA power sources to meet retail demands to prepare for the risk of further price spikes
- While sufficient PPA power sources were secured, erex Group’s retail demands declined, leaving less room to procure from cheaper JEPX



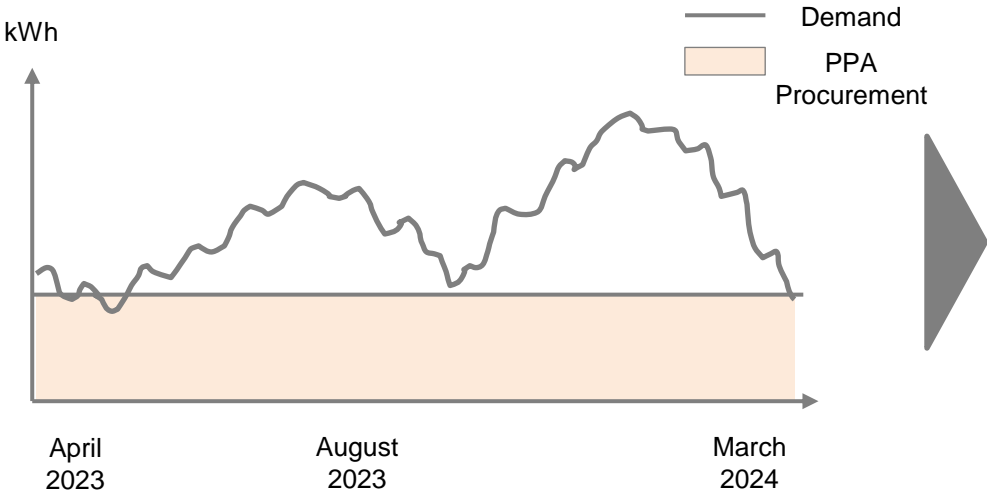
erex Group could not execute its usual procurement strategy of  
"increasing the ratio of market procurement when the market price is cheap"

Procurement Mix and JEPX Price Trends (System Price)

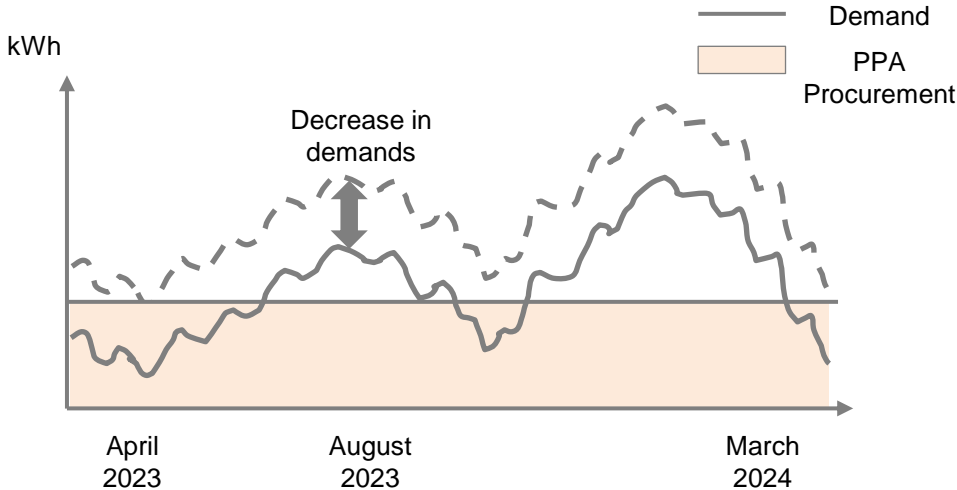


- FY March 2024 1Q earnings deteriorated due to an increase in the PPA procurement ratio in the costs procured in 2022

(As of FY March 2023 3Q) Projected Demands for FY March 2024

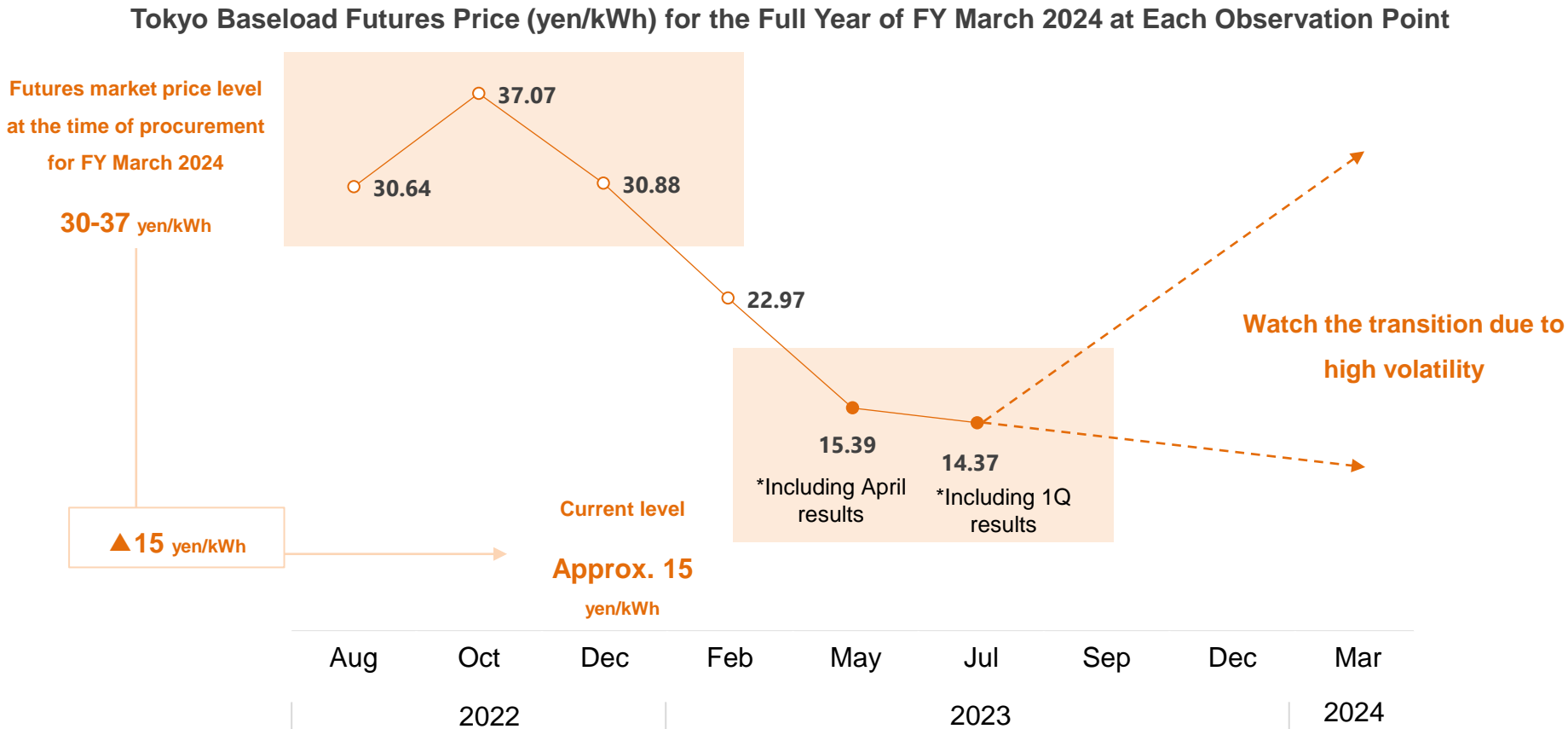


(As of FY March 2024 1Q) Actual and Projected Demands for FY March 2024



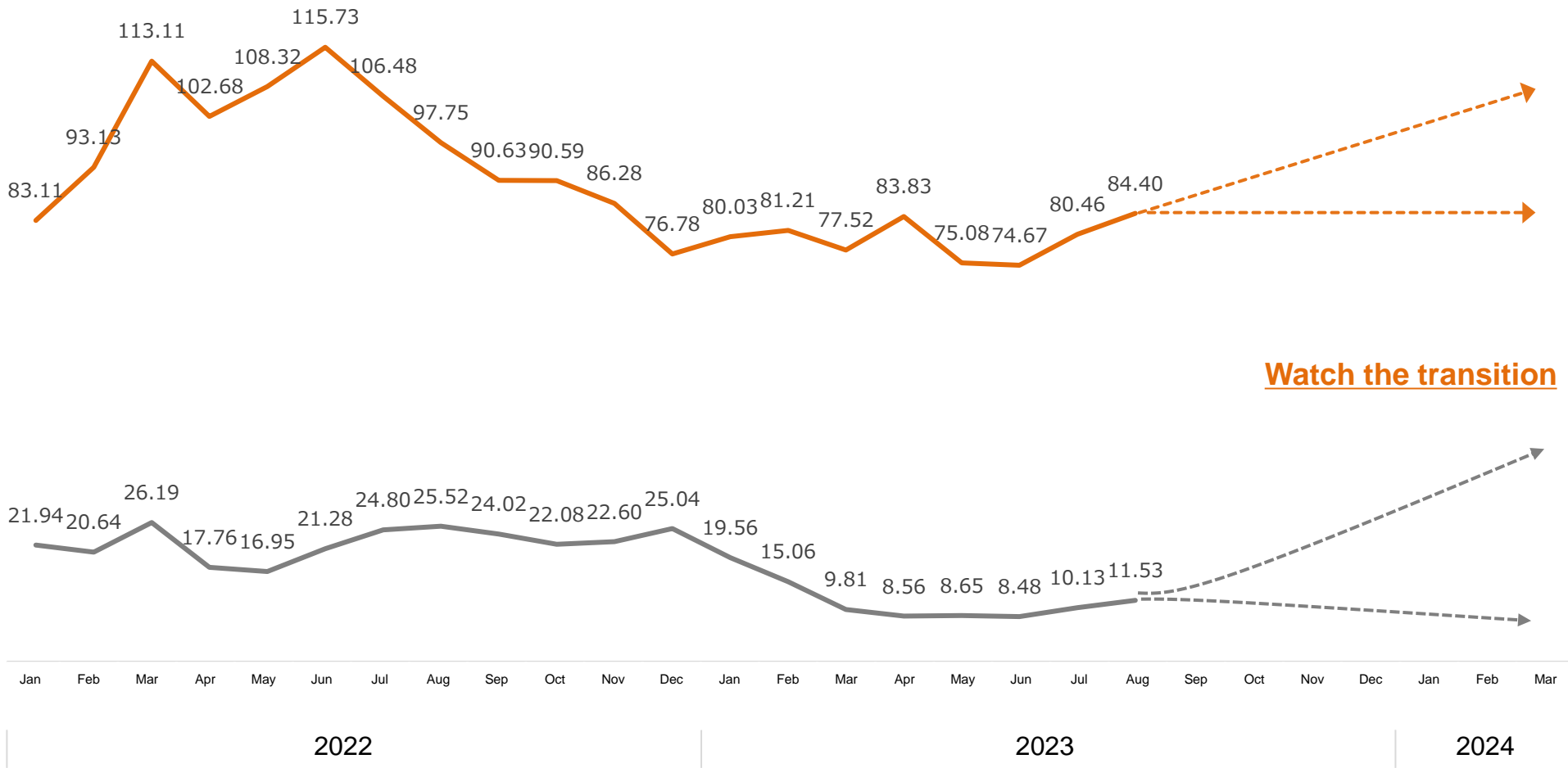
- PPA procurement **equivalent to FY March 2024 base demand** was secured during FY March 2023
  - \* Due to system changes, access opportunities to electric power for FY March 2024 during FY March 2023 were limited to the BL market and each power company's bid
  - \* June 27, 2023, Agency for Natural Resources and Energy, Electricity and Gas Market Surveillance Commission, Materials submitted by the Secretariat of the 86<sup>th</sup> System Design Special Meeting Document 5
- As a result of demand declining and becoming market-linked during the period, PPA procurement ratio was **equivalent to FY March 2024 peak demands**
  - 【Reasons for the Decline in Demands】
  - Demands outflow to other companies because sales unit prices based on costs procured in FY March 2023 were higher than the standard menus and regulated rates of major electric power companies

- The PPA power sources for FY March 2024 secured in summer-winter of 2022 had been judged to be sufficiently price competitive at the time, but a steep decline in market price levels subsequently occurred
- On the other hand, erex Group considers the future transition in FY March 2024 to be unpredictable, and will take actions in preparation for both upswing and downswing scenarios

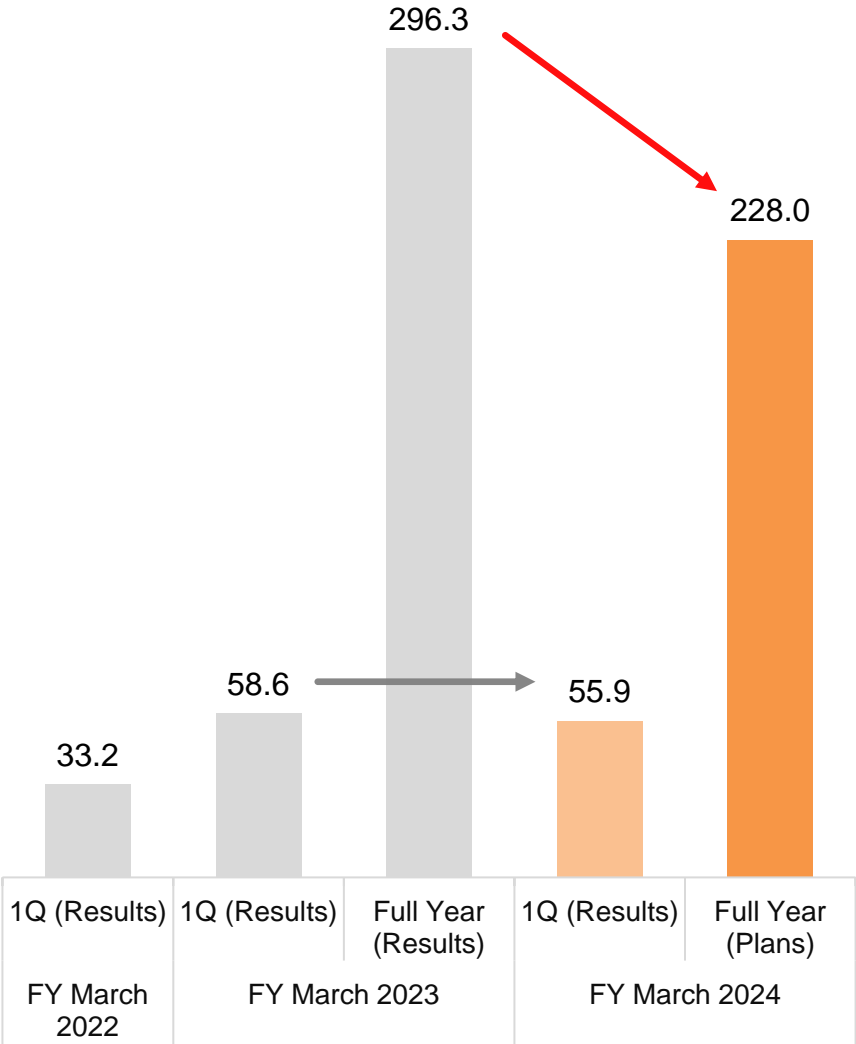




crude oil Dubai (\$/bbl)      JEPX Price (yen/kWh)



(JPY Billion)



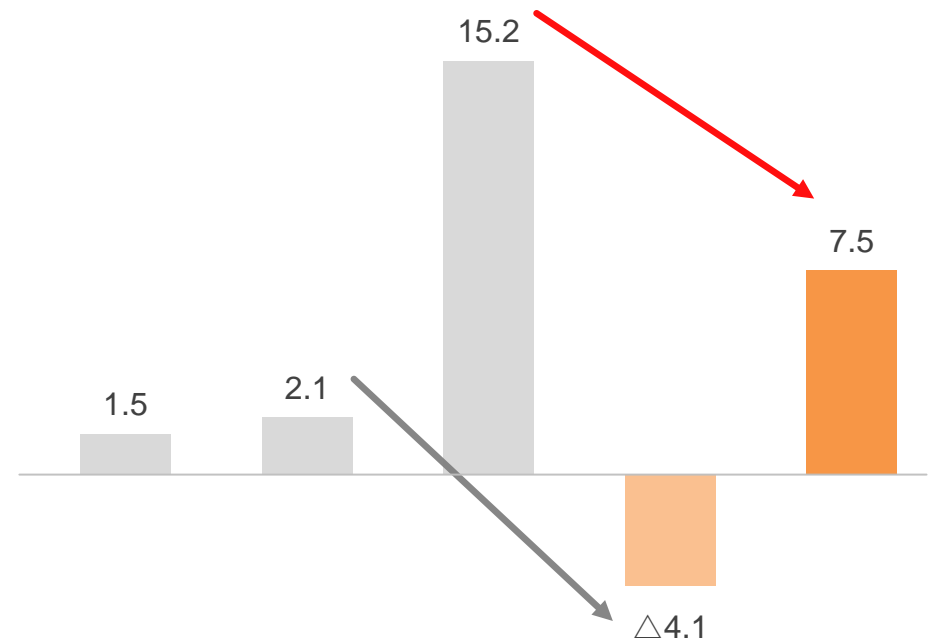
Net Sales JPY55.9 Billion  
△4.7% YoY

	1Q of FY March 2022 (Results)	1Q of FY March 2023 (Results)	1Q of FY March 2024 (Results)
	Net Sales (Composition Ratio)	Net Sales (Composition Ratio)	Net Sales (Composition Ratio)
High Voltage Retail	11.9 (36%)	12.3 (21%)	11.7 *1 (21%)
Low Voltage Retail	5.2 (17%)	7.8 (14%)	8.4 *1 (15%)
Wholesale	12.8 (38%)	33.0 (56%)	32.0 (57%)
Sales to 3 <sup>rd</sup> Parties by Power Plants (Buzen, Uruma)	2.5 (7%)	4.1 (7%)	1.5 (3%)
Fuel Sales to 3 <sup>rd</sup> Parties, City Gas, Others	0.6 (2%)	1.2 (2%)	2.0 (4%)

\*1: Including subsidies to mitigate drastic changes

\*2: Buzen Biomass Power Plant is excluded from the scope of consolidation from the current fiscal year due to a change in operating rules

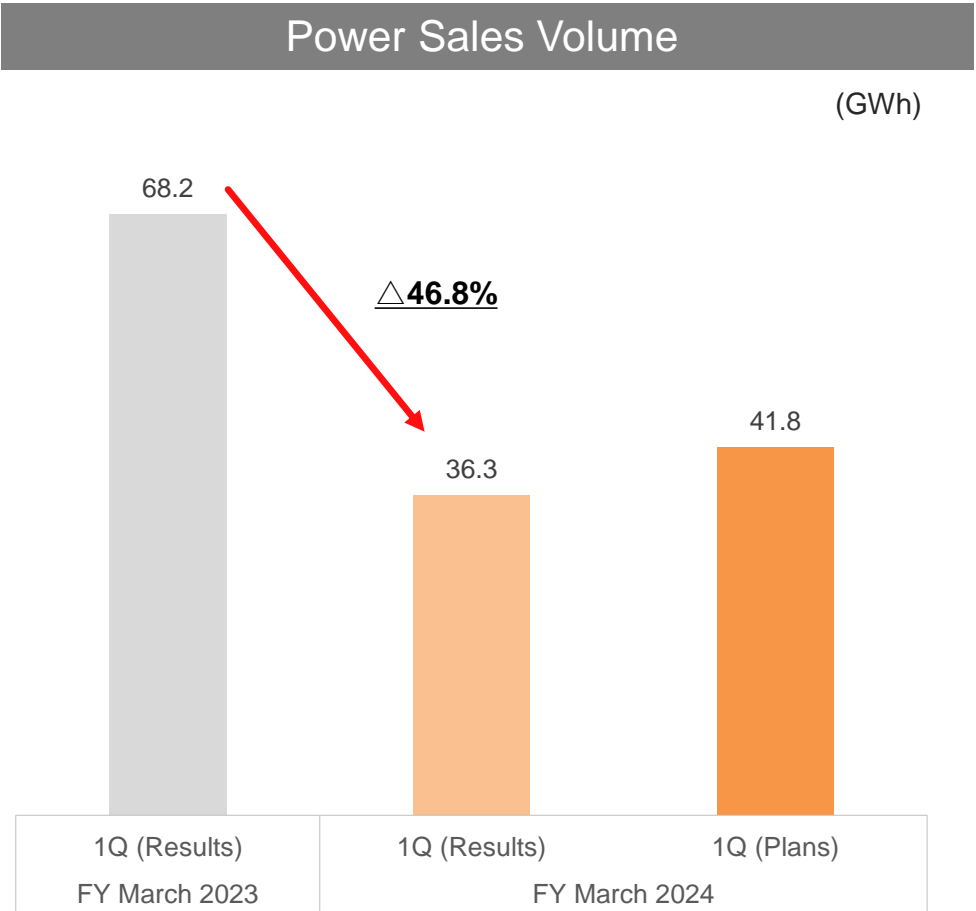
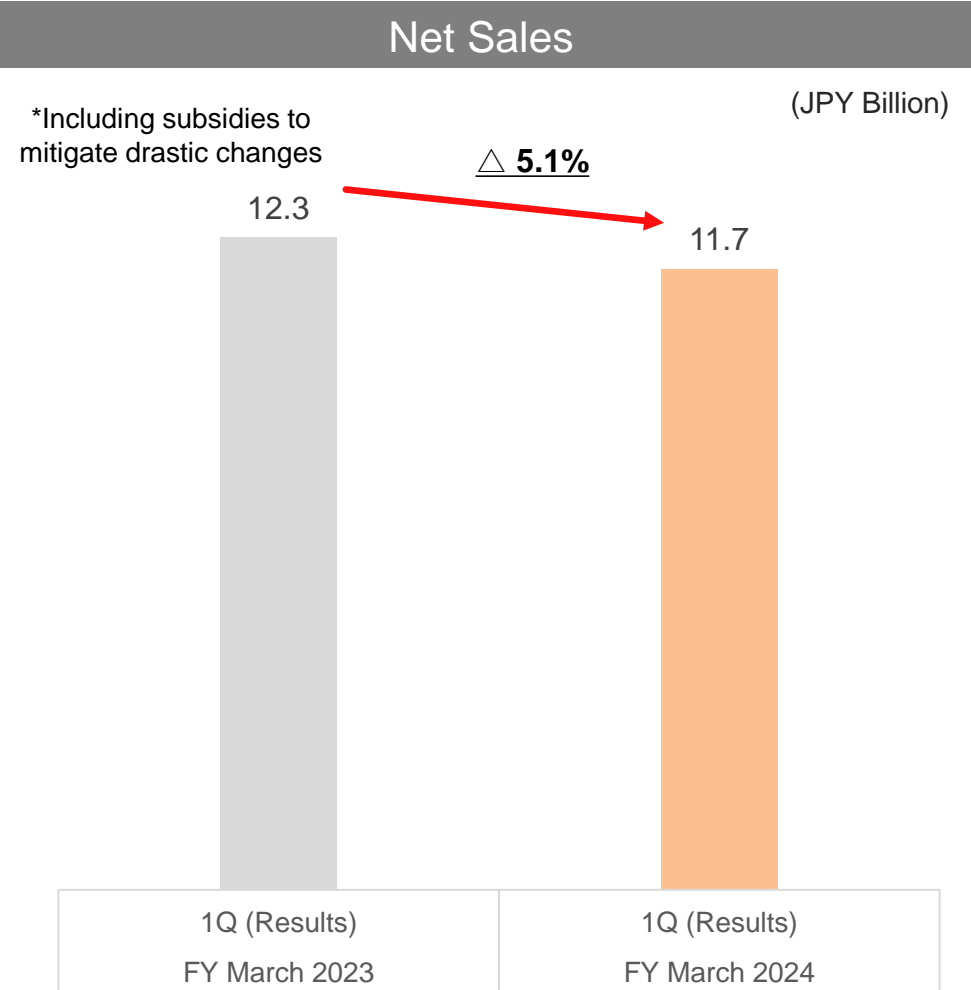
(JPY Billion)



Ordinary Income  $\triangle$ JPY4.1 Billion

- Competitiveness of PPA power sources for FY March 2024 secured in FY March 2023 decreased
- Surplus electric power generated by lower than planned retail demands was sold to the wholesale electricity market (JEPX) with negative spread. This was a factor of the decrease in ordinary income
- Lower-than-planned operation of power plants was also a factor of the decrease in ordinary income
- Retail segment earnings increased due to the effect of price hikes
- Positive earnings from derivatives trading in preparation for declining market prices compensated for the large negative operating income
- 4.1 billion yen of ordinary loss is broadly in line with the internal plans (380 million yen lower than the internal plan)

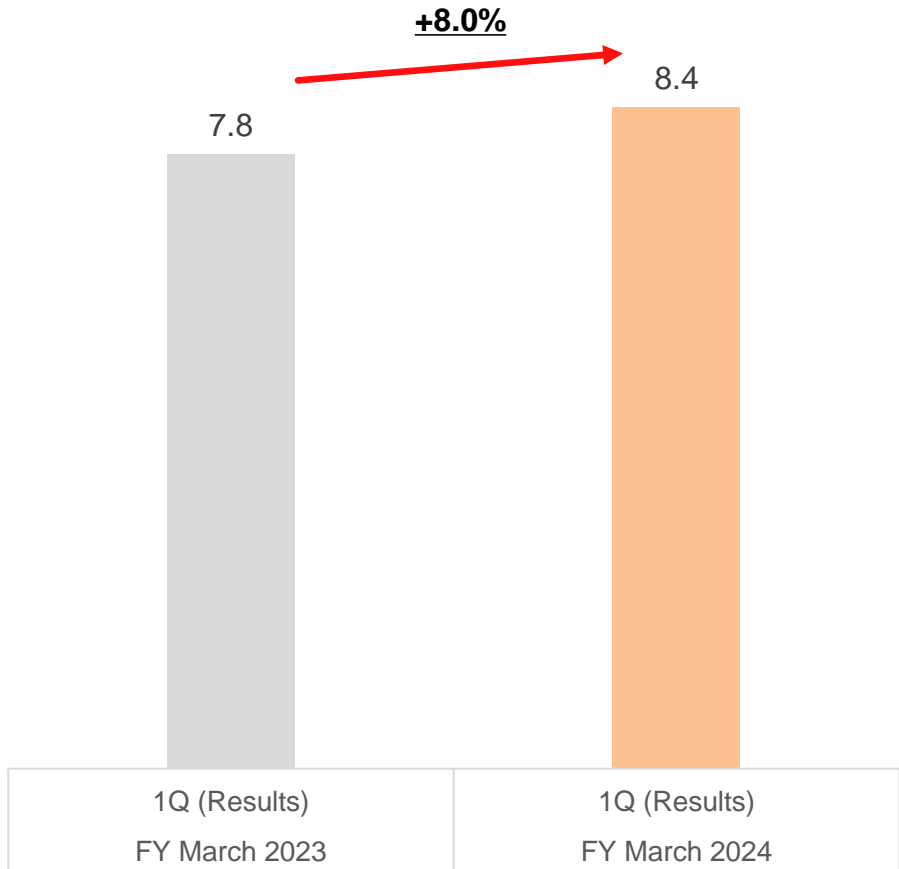
- Price hikes completed. Unit sales price significantly increased
- Power sales volume declined significantly due to an increase in outflow of customers to competitors as a result of smaller-than-expected price hikes by major electric power companies



- Profit margin stabilized due to switching to market-linked plans
- Net sales increased. Power sales volume and number of customers slightly decreased YoY, but exceeded the plans

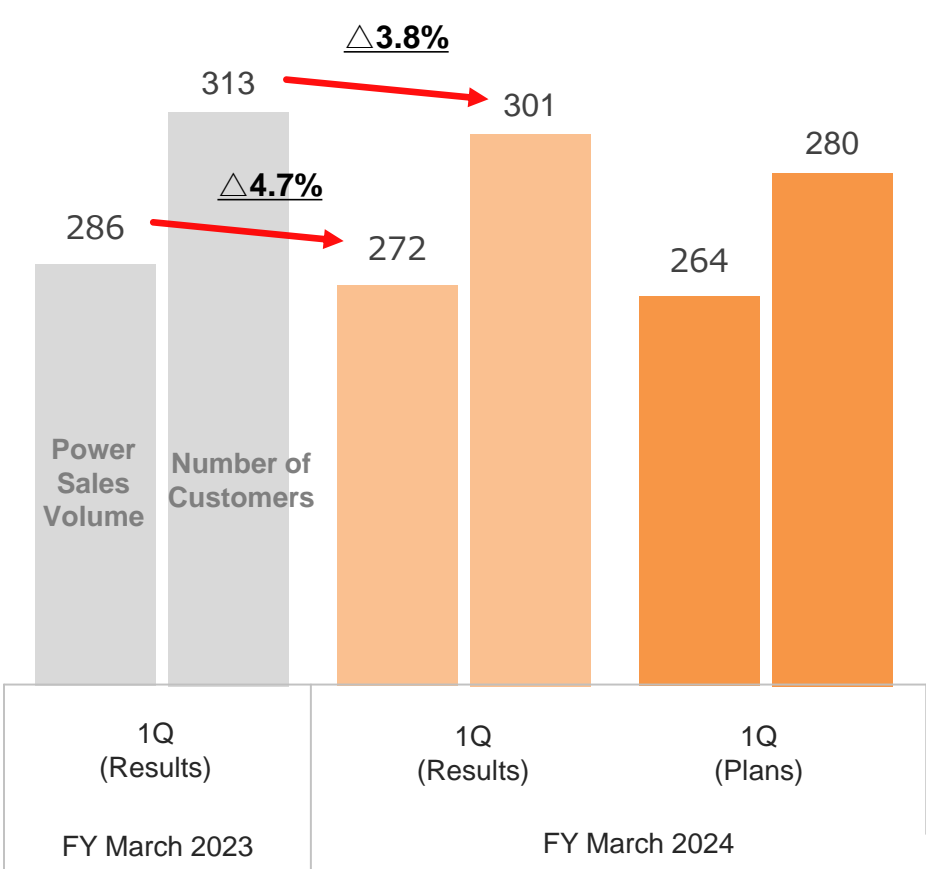
Net Sales

\* Including subsidies to mitigate drastic changes (JPY Billion)



Power Sales Volume & Number of Customers

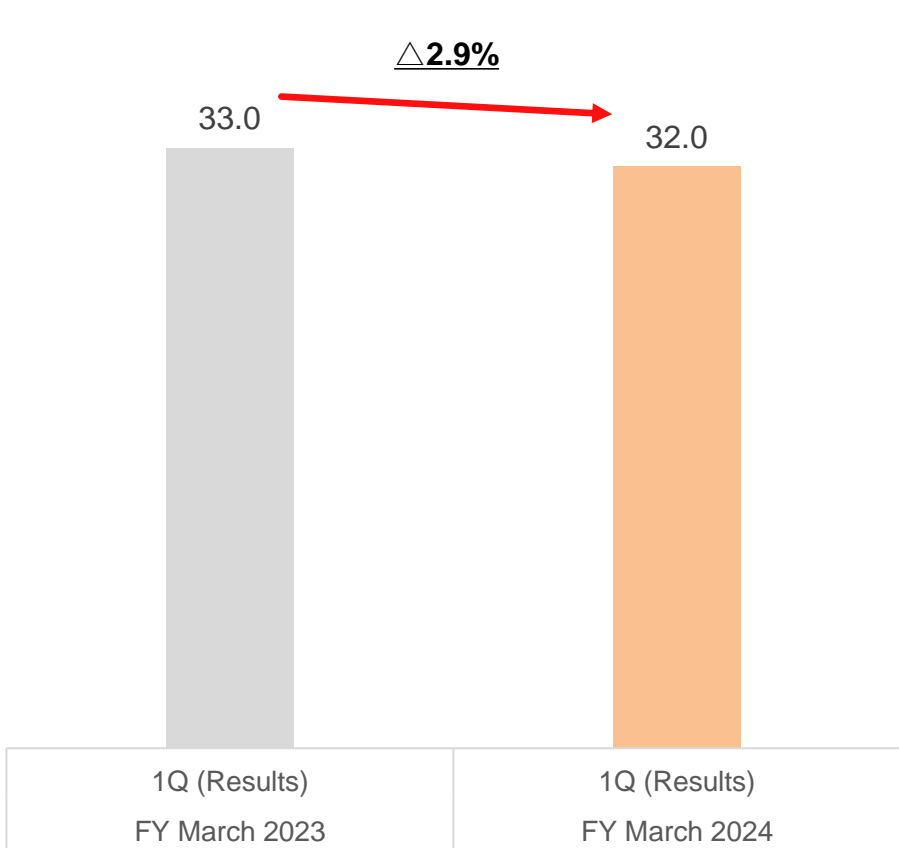
(Number of Customers:1,000)  
(Power Sales Volume: GWh)



- The wholesale unit price declined YoY due to a significant drop in market prices. Therefore, despite an increase in the power sales volume, net sales declined slightly

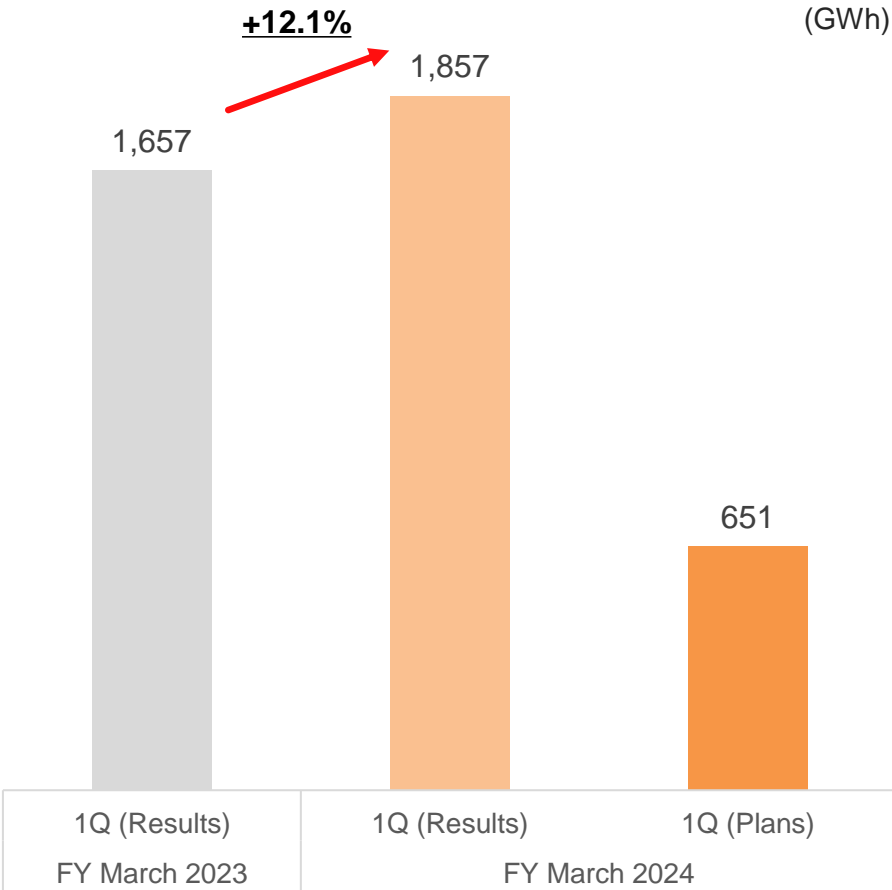
Net Sales

(JPY Billion)



Power Sales Volume

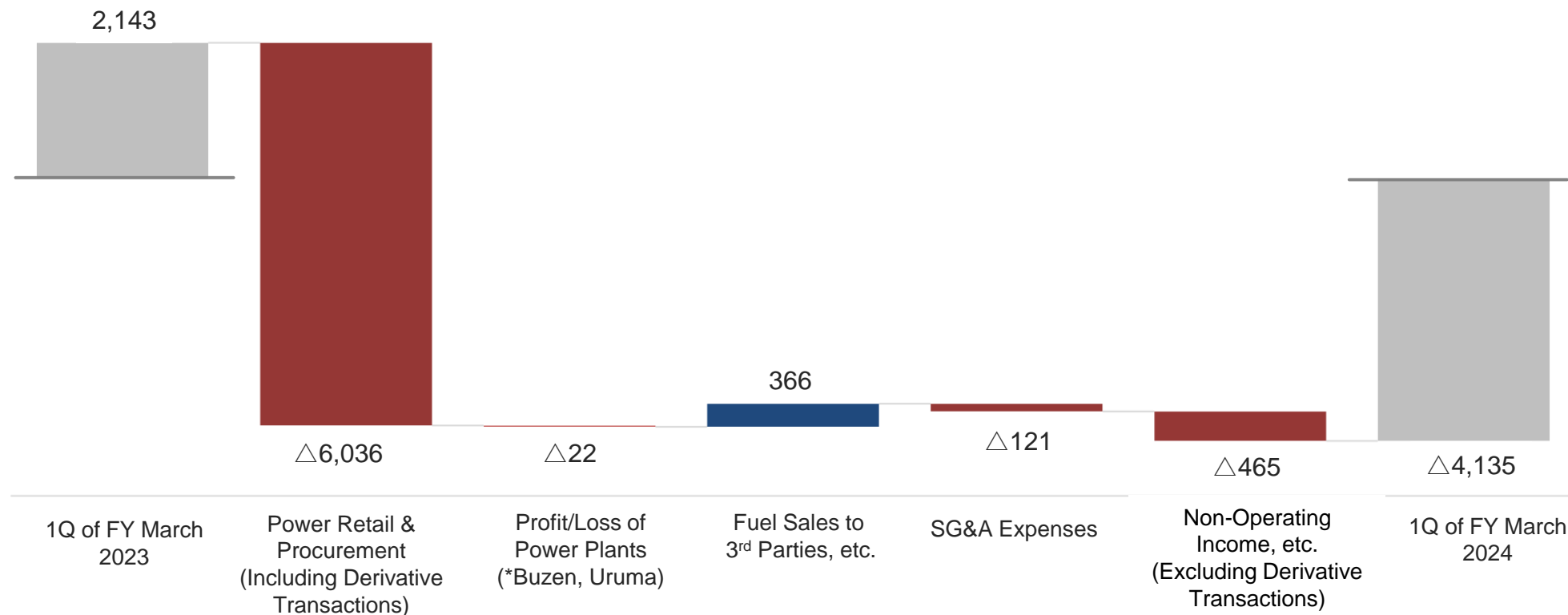
(GWh)



- Ordinary income decreased YoY due to the relative higher cost of procured power sources resulting from lower prices at JEPX, and sales to JEPX at negative spread due to lower retail demands, despite the positive effect of retail price hikes, etc.
- Outsourcing expenses increased due to full-scale preparations for DR business, but agency fees, sales promotion expenses, etc. decreased

## Ordinary Income

(JPY million)



\* Buzen Biomass Power Plant is excluded from the scope of consolidation from the current fiscal year due to a change in operating rules

(JPY Million)

### (1) Power Retail / Power Procurement (△6,036)

- Costs increased due to the higher cost of procured power sources for FY March 2024 retail conducted in FY March 2023 as a result of the weak JEPX prices (PPA power sources were the main cause of the cost increase)
- Earnings declined sharply as a result of selling the surplus power to JEPX at a negative spread due to reduced retail demands
- Power sales volume decreased for both high-voltage and low-voltage
- Earnings increased due to the effect of retail price increases
- Power derivatives: +3,275, etc.

\*Although the earnings of the procurement division and the retail division fluctuate depending on the wholesale price within the group, the combined earnings of the retail division and procurement for retail is positive at about 1,200 million yen (net).

### (2) Power Plants (Buzen, Uruma): △22

Buzen was excluded from scope of consolidation (from FY March 2024) (△174)

Increase in OUNE power generation, etc. +152

### (3) Fuel Sales, etc. to 3<sup>rd</sup> Parties +366

Fuel sales to 3<sup>rd</sup> parties: +112, etc.

### (4) SG&A Expenses (△121)

Agency fees (△218)

Sales promotion expenses (△117)

Outsourcing expenses +167, etc.

### (5) Non-Operating Income, etc. (△465)

Foreign exchange gains (△265)

Equity method investment loss (△250) etc.



# Summary of the Consolidated Balance Sheet

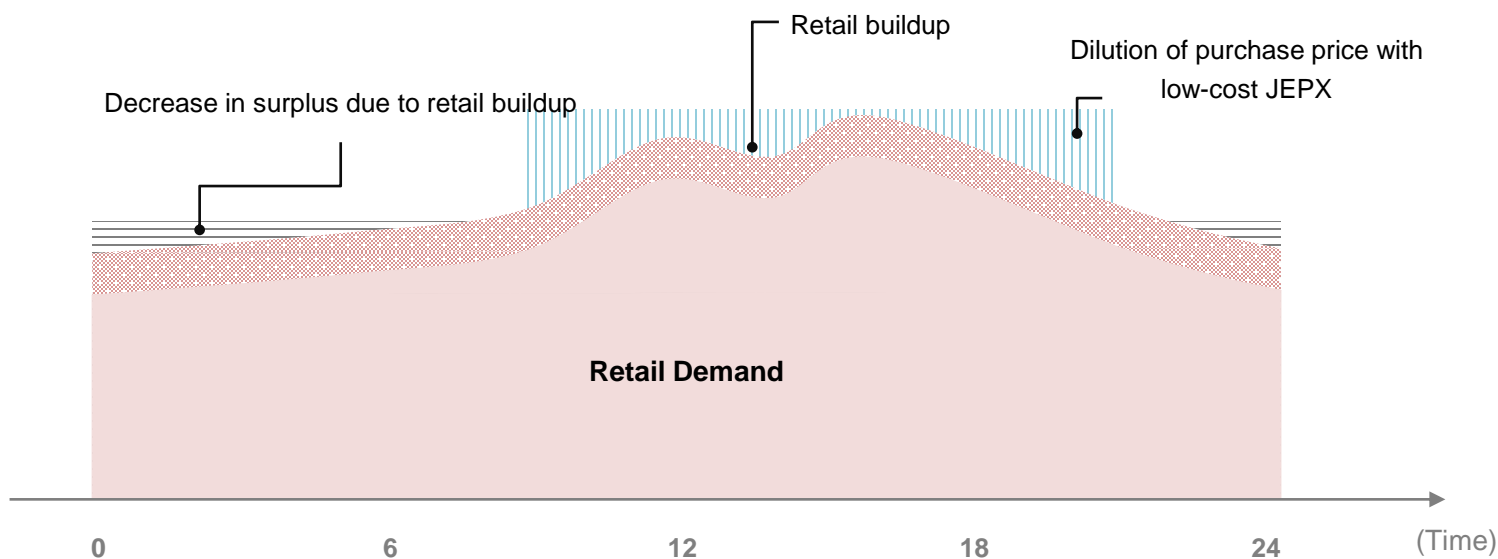
(JPY Billion)	FY March 2023 (End of the Period)	1Q of FY March 2024		
		Results	Increase/Decrease	Major Reasons for Increase/Decrease
Current Assets	79.3	60.9	△18.3	<ul style="list-style-type: none"> <li>Decrease in cash and deposits</li> <li>Decrease in accounts receivable/trade due to a decrease in unit sales price and number of customers</li> </ul>
Noncurrent Assets	92.1	80.2	△11.9	<ul style="list-style-type: none"> <li>Decrease in “buildings and structures” and “machinery and delivery equipment” due to the exclusion of Buzen New Energy from the scope of consolidation (hereinafter: due to the exclusion of BNE from consolidation)</li> <li>Increase in investments in affiliates (due to exclusion of BNE from consolidation)</li> </ul>
<b>Total Assets</b>	<b>171.4</b>	<b>141.1</b>	<b>△30.2</b>	
Current Liabilities	48.4	32.9	△15.4	<ul style="list-style-type: none"> <li>Decrease in accounts payable/trade due to shorter turnover and lower procurement unit prices</li> <li>Decrease due to payment of income taxes payable</li> </ul>
Noncurrent Liabilities	48.6	38.3	△10.3	<ul style="list-style-type: none"> <li>Decrease in long-term loans payable (due to exclusion of BNE from consolidation)</li> <li>Increase due to issuance of bonds</li> </ul>
<b>Total Liabilities</b>	<b>97.0</b>	<b>71.2</b>	<b>△25.8</b>	
Capital Stock	57.6	52.5	△5.1	<ul style="list-style-type: none"> <li>Decrease due to net loss and dividend payment</li> </ul>
Accumulated Other Comprehensive Income	4.4	8.3	3.9	<ul style="list-style-type: none"> <li>Increase in deferred gains (losses) on hedges from foreign exchange contracts</li> </ul>
Noncontrolling Shareholders' Interest	12.3	9.0	△3.2	<ul style="list-style-type: none"> <li>Due to exclusion of BNE from consolidation</li> </ul>
<b>Total net assets</b>	<b>74.3</b>	<b>69.9</b>	<b>△4.4</b>	
Cash & Deposits	33.6	17.4	△16.1	<ul style="list-style-type: none"> <li>Due to exclusion of BNE from consolidation</li> <li>Decrease due to increase in working capital and payment of income taxes</li> </ul>
Interest-Bearing Debt	55.1	44.5	△10.5	<ul style="list-style-type: none"> <li>Decrease in long-term loans payable (due to exclusion of BNE from consolidation)</li> <li>Increase due to issuance of bonds</li> </ul>
Net Asset Ratio	36.2%	43.1%	6.9%	<ul style="list-style-type: none"> <li>Decrease in liabilities due to exclusion of BNE from consolidation</li> </ul>

# Outlook for the 2Q and Beyond

## Future Initiatives

- Overpriced PPA procurement contracts: Efforts to improve procurement prices through negotiation of changes in contract terms and conditions, inter-period and inter-area transactions, etc. are ongoing
- High voltage: New competitive menu is being proposed. erex Group aims to accelerate the buildup of demands and eliminate excess positions. DR system operations were started from this summer. Proposals to reduce electricity rates for customers and erex Group's procurement costs are made. Low-voltage: In principle, the menu is market-linked, and competitive prices are being proposed as JEPX prices are currently at a low level
- Power plants: With fuel prices also on a downward trend, earnings are expected to improve through step-by-step increases in operating rates

### Illustrative Image of Future Response



## Significance of erex Group's Power Retail Activities

### De-Carbonization

- As a leading renewable energy company, erex Group is committed to supplying clean electric power. erex Group aims to establish a status “Renewable energy power = Evergreen”
- erex Group aims to expand the renewable energy menu demanded by customers in combination with development.

### New Service Plans

- The market-linked menu enables stable earnings on an ongoing basis. Also, the fixed menu allows for a fixed sales unit price, which increases the predictability of earnings
- erex Group aims to encourage long-term use by many customers through expansion of sales channels by strengthening agent & web acquisition, and various service menus combining market-linked and fixed services.

【High Voltage】 Shift to acquiring new customers and gripping existing customers. Expanding new service plans to increase customer acquisitions

【Low-Voltage】 Expanding web-based acquisition channels and expanding new service plans to increase customer acquisitions

【High-Voltage & Low-Voltage】 Strengthening sales of clean electric power, including CO2-free plans

### Retail & Trading

- From FY March 2025 onward: Since the strategy is basically as follows, erex Group does not expect a deterioration in financial results due to procurement unit prices remaining high like the current fiscal year (ensuring margins). \*To be confirmed again when the time comes for negotiations to secure PPA sources for FY March 2025.
  - ① Low-voltage demand: The shift to the “market-linked menu” has already been made, and for FY March 2025 and beyond, there is no need to secure a full-year PPA power sources in the previous fiscal year
  - ② High-voltage demand: For the “fixed (with fuel adjustment) menu,” sales will be made up to the power volume tied to the power sources of the Itoigawa Power Plant, which is an in-house power source, and thereafter the "Fully Fixed Plan/Hybrid Plan" will be sold, eliminating the need to secure power from PPA power sources for the entire year in the previous fiscal year
- Trading Division: erex Group aims at cost reduction through solid demand forecasting and rational switching of power sources

### Power Generation & Fuel

- Power Generation and Fuel Divisions: erex Group generates stable earnings and contributes to de-carbonization by securing inexpensive and stable biomass fuels and ensuring stable operation as the primary goal

# Overseas Business Developments

## PDP8 New Construction Project

- The Vietnamese government approved PDP8 (8<sup>th</sup> Power Development Plan) on May 15, 2023. This greatly advanced the new biomass power plant PJ to the implementation stage
- Specifically, the construction of biomass fuel accumulation and processing plants has been started in Yen Bai and Tuyen Quang Provinces prior to the construction of biomass power plants (see next page for details). Construction of the power plant is expected to start by the end of this year at the earliest

## Coal-Fired Fuel Conversion

- Confirmation with Vinacomin Power on detailed schedule, etc., for the trial
- During December 2023, Vietnam's first biomass co-firing (up to 20%) with coal-fired power plants will be implemented, and based on the results, discussions on how to proceed with the project with the Vietnamese government will be made

## Handling of Environmental Values

- Vietnam intends to operate a carbon credit exchange on a pilot basis by 2025, with formal operation beginning in 2028
- Discussions and exchanges of opinions have been started with the Ministry of Natural Resources and Environment of Vietnam regarding the handling of environmental values generated from erex Group's series of PJ
- Investment in PJ will be steadily promoted while making effective use of the environmental value created by PJ and contributing to de-carbonization

Coal-Fired Fuel Conversion: Trial Plant & Fuel Used

Na Duong Thermal Power Plant



Wood Chip



- Construction of two biomass fuel processing plants (pellet plants) have been started in Yen Bai and Tuyen Quang
- Groundbreaking ceremony for biomass fuel processing plant in Yen Bai was conducted on July 6, 2023 (Tuyen Quang to follow soon)
- erex Group is working to secure unused biomass fuels, etc., and plans to pelletize them for use in power plants and for external sales
- The construction of pellet plants will continue to move ahead in line with the plans to build power plants

## Yen Bai

[Fuel Development Company Profile].

Company Name : erex Sakura Biomass Yen Bai LLC

Investment Ratio: erex: 97%

SAKURA GREEN ENERGY JOINT STOCK COMPANY: 3%.

[Outline of the Wood Pellet Plant]

Business Operation: erex Sakura Biomass Yen Bai Plant

Total Investment Amount : 20,400,000USD

Production Capacity : 150,000 tons/year



Chairman of Yen Bai Provincial People's Committee  
Mr. Tran Huy Tuan (right)  
(Groundbreaking ceremony for Yen Bai Provincial Pellet  
Plant on July 6, 2023)

## Tuyen Quang

[Fuel Development Company Profile].

Company Name : erex Sakura Biomass Tuyen Quang LLC

Investment Ratio: erex: 97%

SAKURA GREEN ENERGY JOINT STOCK COMPANY: 3%.

[Outline of the Wood Pellet Plant]

Business Operation : erex Sakura Biomass Tuyen Quang Plant

Total Investment Amount : 20,400,000USD

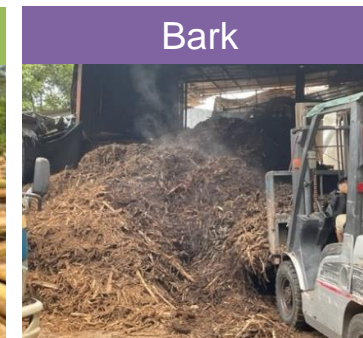
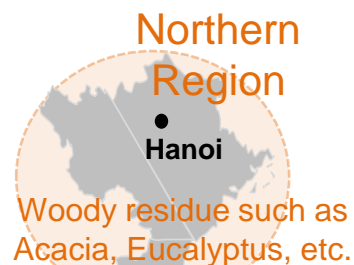
Production Capacity : 150,000 tons/year



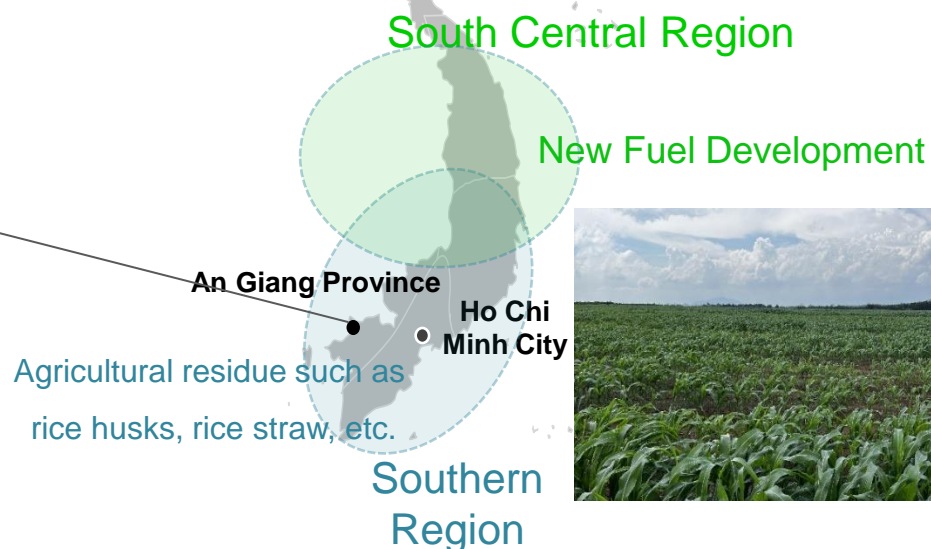
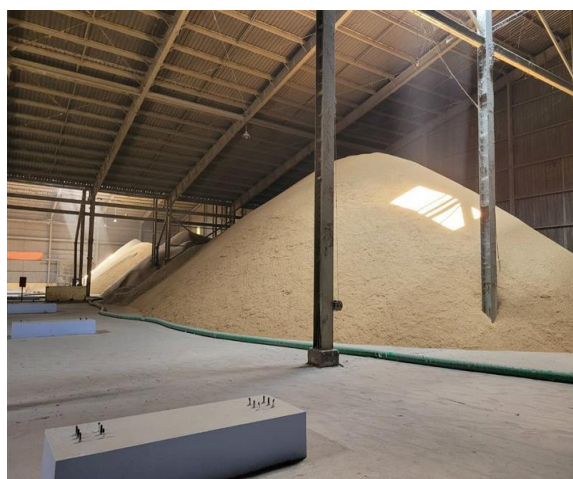
Rough Sketch  
(Yen Bai Plant)



## Utilization of Unused Biomass Fuels & Development of New Fuels

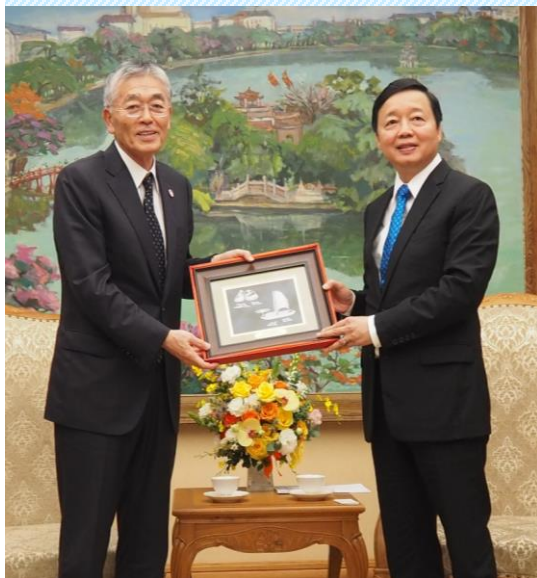


### Rice Husk Storage Warehouse



## Business Development with Deepening Understanding of the Vietnamese Government

Mr. Tran Hong Ha,  
Deputy Prime Minister



Mr. Phạm Minh Chính,  
Prime Minister



Mr. Vương Đình Huệ, Chairman of the  
National Assembly



May 2023

- In April 2020, the Saiki Power Plant became the first plant in Japan to obtain GGL certification for PKS as part of efforts to ensure the sustainability and traceability of biomass fuels and to continuously improve quality
- All of erex Group's power plants in operation have obtained GGL certification (Green Gold Label), a third-party certification.

Companies Subject to Certification	Subject of Certification	Date of Certification
erex New Energy Saiki Co., Ltd. (Saiki Power Plant)	Palm Kernel Shell, PKS	April 24, 2020
erex New Energy Co., Ltd. (Tosa Power Plant)	Palm Kernel Shell, PKS	March 22, 2023
Buzen New Energy G.K. (Buzen Biomass Power Plant)	Palm Kernel Shell, PKS	March 15, 2023
Okinawa Uruma New Energy Co., Ltd. (Nakagusuku Biomass Power Plant)	Palm Kernel Shell, PKS	March 15, 2023
Ofunato Power Inc. (Ofunato Biomass Power Plant) *Equity-Method Affiliate	Palm Kernel Shell, PKS	February 26, 2023

# erex

**ENERGY RESOURCE EXCHANGE**